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BUYING A HOME

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Buying a Home

If you are looking to buy a house in Massachusetts, there's good news and bad news.

The good news is that single-family homes have been and continue to be perhaps the best investment around. Values have generally risen faster than the rate of inflation. Moreover, single-family homes are likely to remain one of the best hedges against inflation available to the ordinary person.

The bad news is that soaring real estate prices have made it increasingly difficult for many people to realize the dream of owning a home. During the last ten years the average price of an existing home in Massachusetts has soared to about \$50,000 from just under \$23,000 in 1969, according to the Massachusetts Association of Realtors. New home prices tend to be even higher.

Of course, home prices vary significantly around the Commonwealth. In Western Massachusetts average prices for existing homes have recently ranged between \$30,000 and \$40,000, whereas in greater Boston prices have averaged between \$60,000 and \$65,000.

Whatever the price, a home is the largest investment most people make in their entire lives.



What Can You Afford?

Though home prices at first glance might seem to be overwhelming, chances are you have more options for buying one than you think. Houses are typically purchased with the buyer paying only 20% of the purchase price down and a bank lending the remaining 80% in the form of a mortgage which is then paid off on a monthly basis over 25 or 30 years. Some mortgages, particularly those guaranteed by the U.S. Government under special programs, can be for more than 80% of the sales price and in a few cases 100% of the price, thus reducing or eliminating the buyer's initial down payment. Also keep in mind that interest on the mortgage and property taxes are tax deductible, reducing final costs by varying amounts, depending on the owner's tax bracket.

You may also be able to reduce costs by buying a two or three family house or a condominium. The rental income from a multifamily house will contribute to your monthly mortgage payment. And condominiums, which are apartments offered for sale, frequently cost less to purchase and maintain than a single family home.

One guideline offered by bankers and financial advisers is that a home shouldn't cost more than two-and-a-half times a first-time homebuyer's annual income. Thus, if you earn \$15,000 a year, you shouldn't buy a house costing more than approx-



imately \$37,500. If you make \$25,000 annually, your highest price should be about \$62,500.

Another guideline used by banks and other lenders in deciding whether to grant a mortgage is that the monthly mortgage payment not consume more than 20% to 25% of your monthly salary and that additional long-term debt payments together with the mortgage, taxes, and homeowners insurance not exceed one-third of your earnings. If both a husband and wife work, banks will often count both salaries in their calculations, which allows many people to buy more expensive homes than would otherwise be the case.

A word of caution, though: be careful not to spread yourself too thin. Costs associated with completing a home purchase, such as legal and bank charges, can run to between \$1,000 and \$2,000. Also, allow yourself a cushion to pay for unforeseen early repairs and rising energy prices.

Where to Look

Once you have decided how much you are prepared to spend on a house, you have gone a long way to determining where to begin your search. Your maximum price will automatically eliminate some communities where prices generally exceed what you can afford. Once you have determined the areas you can afford, carefully investigate such things as real estate taxes, community services and recreational facilities, and the desirability of various neighborhoods.



There's an old saying among real estate experts that three criteria should govern the home buyer's final decision: location, location, and location.

How close is the house to schools and what is the quality of the schools? How close is the house to shopping and public transportation? Is the house on a quiet side street or on a busy and noisy thoroughfare? Is the house in an established neighborhood of homes or an area in which so many new homes and other buildings are being constructed that the final identity of the neighborhood isn't clear?

Indications are such questions of location are, if anything, becoming even more important than they ever have been. Rising energy costs, for instance, have made houses close to public transportation extremely desirable and could eventually make houses farthest from public transportation more difficult to sell. Similarly, the trend in many cities and suburbs to shut down public schools because of declining enrollment can lower property values in the areas served by such neighborhood schools.

Thus, your investigation of communities that appeal to you should be extremely thorough. Talk to as many people as possible to learn about possibly undesirable aspects of areas that appeal to you. If you don't know anyone in the neighborhoods, read back issues of the local newspaper and inquire with the newspaper editor, bankers, and retailers, along with realtors.



What to Look for in a Home

After you have decided where to concentrate your househunting efforts, you are nearly ready to take a close look at individual homes. First, though, you must know what features you want and which are most important to you. Do you want an older house which may have the advantage of more space and the disadvantage of more repairs than a newer house? Do you want three bedrooms or four? Do you want a den with a fireplace or a living room with a fireplace, or both?

Remember that rarely will a house have all the features you want. Thus, decide in advance which features are most important and which are least important. Knowing the kind of trade-offs you are willing to make will save much time because you can eliminate houses that don't have your high-priority features. A licensed realtor can be a big help avoiding houses that don't have what you want and picking out those that have the features you are most interested in.

Say you find a house that is in your price range, in the neighborhood you want, and with the features you're after. How do you know if it's structurally and mechanically sound?

Evaluating the overall soundness of a house is a tricky business. A realtor can be of some help, but keep in mind that the realtor is primarily



representing the seller. The realtor's pay comes in the form of a commission paid by the seller after the house is sold; the commission is usually 5% to 7% of the selling price.

You may be able to spot some problems, such as waterstained ceilings and cracked foundations, yourself. But to guard against buying a house with possibly serious defects, you should hire a professional engineer or architect experienced in home inspections. He will carefully examine the foundation, structure, wiring, heating system, plumbing, and other things to determine existing and potential problems.

The inspection may result in letting you know about problems serious enough to change your mind about buying a house or to lower the price you are willing to pay for a house. Or it may confirm that the house you are in love with is as sound as it looks. When you consider that a house is probably the biggest investment you'll ever make, a professional inspection is well worth the \$75 to \$150 it usually costs. Bankers, real estate lawyers, and realtors can provide names of inspectors.



Buying the House

When you find a house you want to buy you must negotiate a price. Since you are talking about an extremely serious financial transaction, the negotiations must be quite serious. That means you should avoid starting your bidding too low and possibly alienating the seller so much that he won't take any of your other bids seriously. Yet you should expect that the asking price is somewhat higher than what the seller expects to receive.

At the same time, you shouldn't negotiate in a vacuum. Your previous researching and househunting should have given you an idea of home values in the area in which you are searching. If the asking price on the house you want seems unreasonably high and the seller doesn't seem inclined to move down enough to satisfy your feelings about its worth, move on. Other houses fitting your requirements will come up.

Once you settle on a price and agree to buy a house, you will begin a fairly complicated legal procedure. First you must make a written offer to buy the house and make a small deposit; then you will enter into a sales contract to purchase the house which will require a more substantial deposit. Finally, the whole process will culminate in the closing, which is when you pay the buyer the rest of the money due and take over ownership of the house.

Typically about two months will elapse between the time you agree



on a price and when you take title to the house. To ensure that your interests are protected during the entire process, you should hire a lawyer who frequently handles home sales. The lawyer should become involved as soon as you have verbally agreed on a purchase price.

You may be tempted to use the real estate broker to guide you through the transaction, or figure that the lawyer for the bank that grants you a mortgage will watch out for your interests, or try to do it yourself. But remember that the realtor is concerned primarily with the seller's interests and the bank's lawyer is concerned about the bank's interests. You need someone looking after your interests and the only way to do that is to hire your own lawyer. Once again, the few hundred dollars for the legal fee is small compared to the total investment you are making. Friends, bankers, or real estate brokers can usually recommend lawyers.

Getting a Mortgage

One matter you can handle yourself in the purchase procedure is securing a mortgage. An offer to buy a house is usually made subject to the buyer obtaining a mortgage (and also to completion of a professional inspection, if that hasn't been done earlier).



Your objective should be to obtain a mortgage at the most favorable terms possible. Since terms vary considerably from bank to bank, you should investigate a number of banks carefully. One place to start is the Massachusetts Bank Commissioner's office, which keeps a listing of the mortgage rates charged at banks around the Commonwealth. A recent listing showed those rates varying between a low of 10.5% to a high of nearly 13.5% on mortgages requiring 20% down and allowing 25 years for repayment. The difference in the rates on a \$50,000 mortgage at 11% and 12% translates into a \$36.56 difference in monthly payments on a 25-year mortgage, and more than \$10,968 over the life of the mortgage.

Inquire also about the banks' other charges. Banks differ with regard to various closing fees and what are known as points. A point is 1% of the mortgage and is deducted from the loan, which means that you must take out a larger loan than you would otherwise need. The net effect of the charge is to raise the interest rate on your mortgage.

You should also investigate whether you can assume what remains of the previous owner's mortgage; often the interest rate is lower than what you would otherwise pay. If you are buying a new house, the developer might offer mortgages at rates lower than the market rates.



In addition, a number of government insured and subsidized mortgages are available. The U.S. Department of Housing and Urban Development through the Federal Housing Authority insures mortgages granted by banks that require in some cases as little as a 3% downpayment. HUD also subsidizes interest rates on mortgages for low-and-moderate-income families that can reduce the interest rate to as low as 4%. The major drawback to such mortgages is that they usually take many weeks to process. For specific information on HUD programs, visit your local HUD office or write the agency in Washington, D.C. 20410.

For eligible veterans of the armed forces, mortgages requiring little or no downpayment may be available through local banks. But interest rates are usually the same as through ordinary mortgages and, once again, the paper work can cause delays. For more information, contact the nearest VA office or write the Veterans Administration, Washington, D.C. 20420.

Buying a house is a lot of work. But, done correctly, it can be a satisfying and rewarding experience.



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